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SUBJECT: CHINA: AMBASSADOR HOLMER MEETS WITH SHENYANG AMERICAN  
BUSINESS LEADERS

¶1. (SBU) SUMMARY: In a lunch meeting with Ambassador Alan Holmer, American business leaders in Shenyang expressed worry about the appreciation of the Renminbi and the weakness of the dollar, while admitting that the lower dollar did offer some competitive advantages, especially against European competitors. The executives praised the quality of the local labor supply but said that rising labor costs, coupled with the stronger RMB presented problems. Most expressed optimism about the economic outlook for Northeast China. END SUMMARY.

¶2. (U) Ambassador Alan F. Holmer, the U.S. Treasury Department's Special Envoy for China and the Strategic Economic Dialogue (SED), in Shenyang on November 13 met with managers of several of the larger American enterprises in the city. In attendance were Mr. Dennis Adams, General Manager of Tyco Safety Products Shenyang; Mr. Bi Lequn, Chief Executive Officer of GE China Liaoning; Mr. Ivan Kwok, Boeing Program Site Leader in Asia; and Mr. Charles Li, Plant Manager Pepsi Cola Bottling Company Shenyang. Mr. Dan Wright and Mr. Chris Winship of the Department of Treasury, the Consul General and Econoff also attended.

#### Weak Dollar Poses a Challenge

¶3. (SBU) Ambassador Holmer began the conversation by asking what challenges American businesses in the region faced. Three of the four representatives cited weakness in the dollar and appreciation of the Renminbi as having a major impact on their operations. Mr. Adams pointed out that Tyco primarily sources its inputs locally but also sources many items from Germany. Thus, the appreciation of the RMB increases costs, as does the dollar's weakness compared to the Euro. This effect is heightened by the fact that most of Tyco's production is sold in the United States. Mr. Adams said that, while the Euro rate is an issue, his company is most worried about the appreciation of the RMB. When Ambassador Holmer asked what impact an additional appreciation of the RMB by 5 to 14 percent would have, Mr. Adams expressed his personal view that the company would likely seek a new location outside of China-possibly in Vietnam. Ambassador Holmer commented that members of Congress expected that a twenty percent appreciation in the RMB would send jobs back to the United States-not to Vietnam.

¶4. (SBU) Similarly, GE's Bi Lequn cited RMB appreciation as a problem. Because GE sourced USD 100 million worth of inputs locally, he said the appreciation of the RMB has had a substantial impact. He also noted, however, that the impact of the dollar's depreciation on the price component of U.S.-sourced inputs had a somewhat compensating effect. And Mr. Bi said that GE was experiencing some benefit from the strong Euro, which has driven up the price of the Siemens products that compete directly with GE in the China market. Even in the face of a continued appreciation of the RMB, Mr. Bi concluded, GE would remain and continue to expand because China is simply "the market" for these goods.

¶5. (SBU) Another problem facing GE's financial arm is the lack of

regulations governing non-bank financial entities in China's system.

In an effort to overcome this obstacle, he reported that GE had invited Chinese regulators to America and arranged meetings for them with U.S. regulators. Mr. Bi said that GE was working with Shenyang's Huachen Brilliance Automotive to establish a joint-venture automotive financial service that would provide loans to dealers, fleet buyers and retail customers.

¶16. (SBU) Mr. Ivan Kwok of Boeing said that Boeing's situation is much different from that of GE and TYCO due to the fact that Boeing sources more than ninety percent of its inputs from the United States. The aircraft manufacturing concerns with which Boeing has contracts perform value-added processing and the finished product is then shipped back to the United States. Thus, the value of the RMB relative to the dollar has little impact on Boeing's operations here.

#### Future of the Northeast

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¶17. (SBU) In response to Ambassador Holmer's query concerning what incentives draw U.S. businesses to China's Northeast, the most common response was that labor costs were low, the labor supply was good, and the tax treatment was favorable (no tax the first two years and reduced rates for the next two according to Mr. Adams). Mr. Kwok pointed out that labor quality is high and labor costs are much lower than, for example, Shenzhen. He cited Foxconn's planned construction of a factory that will employ 40,000 people as evidence that major businesses are beginning to move to China's Northeast.

¶18. (SBU) Mr. Kwok told Ambassador Holmer that Boeing did not fear Chinese competition in the aircraft market. He said that, while China was seeking to develop its domestic aircraft manufacturing industry and had developed its first domestic commercial jet, the

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ARJ21, China still had a way to go in developing the industry. Mr. Kwok pointed out that China has been an aircraft manufacturing country for a long time and would want to develop a full range of domestic aircraft production, befitting its newfound stature as a major power.

¶19. (SBU) All of the business representatives said that intellectual property rights (IPR) violations involving their products were very rare. Mr. Adams went on to say that in the event counterfeit items were encountered, the government enforcement actions were helpful, timely and pretty effective. None of the representatives offered any comment on the potential leadership impact of former Liaoning Party Secretary Li Keqiang's move to the central government, claiming they had had no dealings with him.

WICKMAN